

# *Memorandum*

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**TO: HONORABLE MAYOR AND  
CITY COUNCIL AND  
REDEVELOPMENT AGENCY  
BOARD**

**FROM: Del Borgsdorf  
Harry Mavrogenes**

**SUBJECT: Memorandum of Understanding  
With Hitachi Global Storage  
Technologies Inc.**

**DATE: May 13, 2004**

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Council Districts: 2 & 8

## **REASON FOR ADDENDUM**

Hitachi must release contingencies on the proposed new headquarter location and requests review by the City Council and Redevelopment Agency Board on or before May 18, 2004.

## **RECOMMENDATION**

- (a) Approve a Memorandum of Understanding between the City of San Jose, the Redevelopment Agency and Hitachi Global Storage Systems, Inc. regarding proposed development of certain real properties located at 5600 Cottle Road and 3403 Yerba Buena Drive; and
- (b) Direct staff to negotiate a Development Agreement with Hitachi Global Systems for the combined 5600 Cottle Road and 3403 Yerba Buena Road Properties that satisfies the operational and growth needs of Hitachi, meets the requirements of applicable laws, and retains a viable industrial campus in the Edenvale Redevelopment Project Area.

This recommendation will foster achievement of several of the initiatives identified in the City of San Jose's Economic Development Strategy by:

- Improving the Speed, Consistency and Predictability of the Development Review Process and Reducing the Costs of Operating in San Jose;
- Diversifying San Jose's Economic Base and Preserving and Creating Middle-Income Jobs;
- Continuing the Emphasis on Developing New Housing, Including New Housing Types in a Variety of Neighborhood Settings;

- Revising Key Land Use and Transportation Policies to Reflect the New Realities of the San Jose Economy; and
- Developing Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Livability.

## **BACKGROUND**

The 2,312-acre Edenvale Technology Park is home to 290 driving industry and business support industry businesses and employing over 15,000 residents of San Jose and Silicon Valley. A total of 12.8 million square feet of R&D, office and manufacturing space exists in Edenvale, of which approximately 3.4 million square feet is currently vacant. Approximately 300 acres of industrially zoned land is available for development. Edenvale is still considered by both the corporate and development community to be one of the most competitive, fertile and productive grounds for developing and growing businesses in Silicon Valley. It is surrounded by creek trails and bicycle paths and hillsides, a variety of housing opportunities for executives and staff at every income level, superb access to major freeway and transit options, is a reverse commute from neighborhoods and technology centers in the north and west valley corridors, and located 15-20 minutes from Downtown San Jose, San Jose State University and the Mineta San Jose International Airport

IBM located its San Jose presence in Edenvale in 1956 on a 425-acre campus at Cottle Road. The 3.6 million square foot campus in its hey day provided job opportunities to over 13,000 scientists, engineers and administrative professionals and operated its research, head and disk drive technology development and wafer and disk manufacturing operations from the Cottle Road site. IBM was the top revenue generator in San Jose for many decades and partnered with the City of San Jose in creating community partnerships that have advanced the quality of life of neighborhoods throughout South San Jose and the Silicon Valley.

Hitachi Global Storage Technology (Hitachi GST) was founded in 2003 when Hitachi, Ltd. entered into an arrangement with IBM for the purchase of the disk drive component of IBM's business including the Edenvale facility at Cottle Road. Hitachi GST intends to build on the legacy of world-renowned research and development and 80 years of hard disk drive expertise between the two companies. Hitachi GST believes the company is positioned to inspire and lead the future of storage technologies. Hitachi GST's vision is to provide access to large amounts of storage capacity in formats suitable for the office, on the road and in the home. Hitachi GST wants to immediately advance the role of hard disk drives beyond traditional computing environments to consumer electronics and other emerging applications.

Hitachi GST is a global enterprise employing approximately 21,000 people in 10 locations around the world, including approximately 2,800 in San Jose on the Cottle Road campus. The Hitachi GST Cottle Road property encompasses 332 acres and has a General Plan designation of Industrial Park with an entitlement of 3.6 million square feet of building space including

development, manufacturing and administrative facilities. Hitachi GST is a dual source manufacturing company with its main products created both in San Jose and Odawara, Japan. The Cottle Road facility is the largest and most expensive of Hitachi GST's locations to operate.

Hitachi GST desires to create an environment where it can retain its headquarters, research, development, manufacturing and administrative uses in San Jose. At a time of global outsourcing to less expensive work force resources, Hitachi GST sees a competitive advantage in its people and facility assets in San Jose. Hitachi GST's corporate leadership has stated that although the storage system business is highly competitive on a cost basis, the opportunity to leverage San Jose's multiple assets can help Hitachi GST remain the leading company in storage technology.

The competitive nature of the industry demands that Hitachi GST constantly evaluate its cost structure and reduce operating costs whenever possible. The company needs to create a more effective and cost efficient business operation in San Jose to remain competitive. Hitachi GST is asking that the City of San Jose support the company in its efforts to create a more successful company and improve the opportunity to retain and grow its San Jose operations.

## **ANALYSIS**

### **Hitachi GST Proposal**

Hitachi GST has submitted a General Plan Amendment and a Zoning File Nos. GP04-02 and PDC04-031 applications. HGST is requesting that the City re-designate the General Plan for the Cottle Road Property as Mixed Use with No Underlying Designation and concurrently rezone the property to a Planned Development zoning. Hitachi GST intends to intensify its development, manufacturing, and supporting administrative operations onto 148 acres of the 332 acre campus, maintaining the 3.6 million square feet of industrial space the company currently holds. Hitachi GST currently has approximately 2.25 million square feet of manufacturing space, 750,000 square feet of research and development space and 600,000 square feet of supporting office and ancillary uses at the Cottle Road Property. Hitachi GST has indicated that they would like the redeveloped campus to include the same proportion of manufacturing, research and development and office space, in a more high-density environment than the previous campus layout. Hitachi GST intends to sell the remaining 174 acres of land for residential and commercial purposes. The sale would create the opportunity for up to approximately 3,400 residential units and 460,000 square feet of retail uses to be built.

In addition to this proposal for the Cottle Road campus, Hitachi GST is also proposing to relocate its corporate headquarters and long-range research facilities to 3405 Yerba Buena Road in Evergreen. Hitachi currently has its research facilities in leased space in Almaden Valley and must find a long-term solution for its research location.

The relocation to the 3403 Yerba Buena Road property will take advantage of a large existing vacant facility. Hitachi GST has determined that the facility can comfortably house both Hitachi GST's headquarters and research operations. In reviewing sites for the headquarters and long-range research operations Hitachi GST looked at facilities throughout the Santa Clara County. Hitachi GST is choosing to stay in San Jose because of its proximity to the Cottle Road campus and the quality of the improvements at the 3403 Yerba Buena Road site. A review of the existing permits for this site by the Planning, Building and Code Enforcement staff has determined that Hitachi GST should be able to occupy the facility through a permit adjustment, depending upon Hitachi GST's actual proposal for that site.

### **Proposed Memorandum of Understanding and Proposed Development Agreement**

Hitachi GST is requesting that the City and the Redevelopment Agency (collectively indicated as "the City") enter into a Memorandum of Understanding (MOU) to acknowledge the substantial investment that the company is making in San Jose and provide certainty throughout the process leading to a Development Agreement proposal for consideration by the Planning Commission and the City Council by March 31, 2005. Hitachi GST has indicated the company will spend well over \$100 million on the redevelopment of the Cottle Road campus to create a modern development and manufacturing environment that can support Hitachi GST's current and future business operations. The company will additionally expend approximately \$40 million to renovate the Yerba Buena Road facility to create the needed headquarters and laboratory facilities desired by HGST.

The Memorandum of Understanding includes the following elements:

### **Cottle Road Redevelopment Concept**

Hitachi GST intends to seek entitlements for the Cottle Road Property for a mix of uses consisting of the relocation of some of the existing approximately 3.6 million square feet of office/R&D/manufacturing uses, creating a smaller, more dense campus, generally within the inner parcels of the property. Proposed floor area ratios for the redeveloped industrial campus would range from .52 to .56 (built square feet in proportion to total site area). Generally, Hitachi GST proposes that the outer parcels of the property would consist of residential and commercial uses. The property would accommodate approximately 3,400 residential units, ranging from an average of 22.5 to 34.2 units per acre, and 460,000 square feet of retail uses, at a floor area ratio of .25 to .3. This mixed-use development proposal by Hitachi GST of its Cottle Road campus will entail a substantial capital outlay, as will the occupancy of the headquarters/research facility in Evergreen. The MOU acknowledges that significant private investment is required to mitigate the impacts of the development proposal, including funding traffic and transportation infrastructure and public amenities associated with the proposed project and that Hitachi GST envisions that this investment will be supported by anticipated revenue from the disposition of the proposed retail and residential parcels at the Cottle Road property.

### **City Processing and Schedule**

Time is of the essence to Hitachi GST. The MOU commits the City to review the general plan amendment, rezoning, development agreement, Edenvale Area Development Policy amendment and any other applications necessary to move the Cottle Road property forward for consideration by the City's Planning Commission and City Council on or before March 31, 2005. Hitachi GST and the City acknowledge that the schedule proposed is aggressive and that Hitachi GST agrees to provide all required documents in a timely manner to meet this schedule. Hitachi GST and City acknowledge that successful completion by the targeted date may be extended due to acts or events not within the parties' reasonable control.

### **Special Handling**

The City agrees that the Cottle Project shall be processed as a "Special Handling" project as set forth in Council Policy No. 6-17 and shall be processed in accordance with that Council Policy.

### **Development Agreement**

The City acknowledges that Hitachi GST desires to be eligible for a development agreement with the City under the criteria set forth in the City's Development Agreement (DA) Statute, Ordinance No. 24297. City and Hitachi GST acknowledge that they both plan to negotiate in good faith to bring forward a DA for consideration by the Planning Commission and the City Council that reflects the 3403 Yerba Buena Road property, the Cottle Road property and certain benefits to the City that are mutually agreed upon by the City and Hitachi GST.

### **Special Tenant Improvement Program**

The City will assist Hitachi GST in participating in the City's Special Tenant Improvement Program for its proposed development to the extent allowed under the provisions of the Program.

### **Credit for Existing On-Site Development**

The City acknowledges that the Cottle Property is currently developed with approximately 3.6 million square feet of industrial, R&D and manufacturing development and would receive appropriate traffic credits for existing development.

### **Assignment**

City and Hitachi GST acknowledge that the City is making assurances to Hitachi GST only in light of the potential benefits to City in maintaining Hitachi GST's Combined Holdings within the City of San Jose and the potential increase in property and sales tax, and employment within the City. Hitachi GST has no rights to assign or transfer any rights or benefits under the MOU.

## **CONCLUSION**

Staff recommends City Council approval of the Memorandum of Understanding with Hitachi GST. Hitachi GST's proposals for the Yerba Buena and Cottle Road properties support many of the City's major General Plan, Edenvale Redevelopment Plan, and Economic Development objectives as noted in the recommendation section above.

The MOU provides the City with the opportunity to retain and assist Hitachi GST, a global leader in storage technology with its current base of employees in San Jose. The redevelopment of Cottle Road and the new Yerba Buena headquarters and research facility are anticipated to bring significant benefits to the City of San Jose and its residents. The City, Agency and Hitachi GST are committed to bringing forward a project proposal for consideration that creates a viable industrial campus for Hitachi GST with the appropriate supporting infrastructure for all proposed uses.

## **COORDINATION**

This memorandum has been coordinated with the Department of Planning, Building, Code Enforcement, the Redevelopment Agency, the City Attorney's Office, the Department of Public Works, the Department of Transportation and the Office of Economic Development.

## **CEQA**

Not a Project.

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